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ABSTRACT

A seminar was held to examine the merits and feasibility of a subminimum wage for youth. Throughout the seminar panelists expressed general agreement on the fact that most youth want to work as well as on the value or potential value of employment and training programs, including the Comprehensive Employment and Training Act (CETA) programs. In discussing the potential impact of a subminimum wage for youths some panelists suggested that while youth unemployment would decrease upon institution of a subminimum wage, any jobs created by such an action would disproportionately go to white teenagers. At present, there are insufficient data to accurately predict the impact of a youth subminimum wage on older workers. Among the possible negative effects of a subminimum wage are the following: increased labor market discrimination against minority groups, a pitting of young people against adults, an additional source of temptation luring youth to leave school, and possible subsidization of such sectors as the fast food industry. Various alternatives to a subminimum wage were suggested, including instituting wage differentials by subsidizing employers, and instituting cash bonus payments to employers of certain teenagers. (MN)

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EXECUTIVE SUMMARY

Seminar on Subminimum Wage for Youth

April 21, 1981
Avon Foundation Headquarters
New York City

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TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

On April 21, 1981, the National Child Labor Committee and the National Youth Employment Coalition sponsored a Seminar discussion of the merits and feasibility of a subminimum wage for youth. The Seminar's expenses were partially underwritten by the Avon and Taconic Foundations. Both the Committee and the Coalition are advocates for youth and are deeply concerned about employment opportunities for young people. They work extensively to provide information on youth employment issues and seek to direct national policy toward sensible solutions of the problems young people face as they enter the world of work.

Lowering the minimum wage for young people as a means of generating more youth jobs has long been discussed as a possible solution to the nation's continuing youth employment crisis. While specific proposals vary, most suggest a youth wage differential based on a percentage (for example, 75 percent) of the current minimum wage. The suggested differential is related either to age, level of training, or a combination of the two. Before endorsing any specific proposals however, most legislators agree that the potential effects of a wage differential must be carefully examined. The Reagan administration has identified the following issues as requiring further study:

- What effect will a subminimum wage have on the availability of minimum wage adult jobs?
- Can displacement of adult workers and high turnover of young workers be avoided?
- Will jobs be generated for inner-city minority youth who need them most?
- What effect will a subminimum wage have on poor families who rely on the income that teenage workers provide?

- How many new jobs will be created?
- What are the experiences of other countries with respect to a youth wage differential?

Arguments for and against such a wage differential are ordinarily presented singly and without opposition. However, to encourage a productive interchange anomg those on opposite sides of the issue, distinguished panelists were selected both for their expertise and their divergent views on the subminimum wage. Opponents and proponents were well represented, as were those favoring options which fall somewhere in between. The participants were:

Jerome M. Rosow (Moderator)	President Work In America Institute
Howard Bloch	Professor, Department of Economics, George Mason University
Peter Edelman	Attorney, Foley, Lardner, Hollabaugh and Jacobs
Daniel Hamermesh	Professor, National Bureau of Economic Research, Michigan State University
Bob Litman	Chief, Program Planning, Office of Youth Programs Department of Labor
William Lucy	Secretary-Treasurer, American Federation of State, County and Municipal Employees
Julianne Malveaux	Professor, New School for Social Research

S. M. Miller	Professor of Sociology and Economics Boston University
Jeffrey Newman	Executive Director, National Child Labor Committee
Kenneth Nochimson	Executive Director, National Youth Employment Coalition
Paul Osterman	Professor, Department of Economics, Boston University
Robert Palmer	Associate Counsel, National Restaurant Association

Among the observers were:

Julie Bingham	National Alliance of Business
William L. Bradley	President, Edward W. Hazen Foundation
Lawrence C. Brown	President, 70001, Ltd.
Jane Lee J. Eddy	Executive Director, Taconic Foundation
Frederick Jungmann	National Director, Jobs for Youth, Inc.
Paul Kendall	Vice President, Properties Management, YMCA
Ruby Martin	Independent Consultant
Myrtis H. Mosley	Program Director, The Edna McConnell Clark Foundation
Frank Rueda	Program Assistant, The Edna McConnell Clark Foundation
Craig Trygstadt	Director, Youth Communications National Center
W. T. Butler	Amsterdam News

Throughout the day, panelists expressed agreement on one central issue: young people want to work. Most youths understand the long-term benefits of holding a job, even if the job itself has few rewards, pays little, or has very little status. The corollary was also stressed -- that failure to enter the labor force, particularly for minority youths, has scarring effects that will impede all future progress (Malveaux). Several participants agreed that virtually any job can offer important training advantages for youths (Bloch), although this idea did not go unchallenged. The assumption that only highly paid workers should be motivated by money, while youths and other low-wage earners should be satisfied with less concrete rewards, was questioned. It was acknowledged, however, that youths' motivation to work must be high to compensate for the generally low wages of most entry-level jobs: one study showed that youths earning the minimum wage in New York City actually pocket only a total of $1.70 a week after deductions and expenses (Rosow).

The panel also expressed some general agreement on the value, or potential value, of employment and training programs. The proposed subminimum wage was not seen as a substitute for CETA, but as one element in a multifaceted approach to the intractable problem of youth unemployment (Palmer, Rosow). Investing in preparing young people for work is both more humane and more economical, it was suggested, than changing the wage or job structure to compensate for an ill-prepared work force (Nochimson). CETA and other public service programs were noted to be relatively cost-effective, since about two-thirds of the

participants gain skills that are transferable to the private sector jobs which youths prefer because of their opportunities for advancement (Luch, Palmer).

Although CETA suffers from a poor public image, many of the jobs it offers are valuable and important public services (Hamermesh). Improving CETA rather than replacing it (Osterman), and concentrating funds in programs which prove successful (Hamermesh) would be profitable approaches to the youth employment problem.

CETA itself would be more effective with a greater focus on serving older and out-of-school youths and more direct targeting to minority youths. In addition, the creation of longer-term programs would be helpful to those youths most seriously handicapped in their entry to the labor market (Osterman). Income transfer should be recognized as a valuable goal for some employment and training programs contributing to financial independence and reinforcing participants' work values (Rosow).

The most successful employment preparation programs concentrate on brushing up basic skills and developing good attitudes toward work (Osterman). These are the attributes that make youths easy to place, at the minimum wage or more (Jungmann). Business and industry have helped formulate this approach (Martin) and prefer to do their own specific skills training (Osterman). If prospective employees have the necessary basic skills and work values, employers say that the minimum wage is not an issue -- they are willing to pay the prevailing rate (Mosley, Martin).

The Impact of a Subminimum Wage

In discussing the potential impact of instituting a subminimum wage for youths, some panelists agreed that sufficient evidence existed

to project general figures. The unemployment rate for minority youths is now at 38 to 40 percent. With a subminimum wage, it would probably go down to 36 or 37 percent (Osterman). Approximately 300,000 to 350,000 jobs would either be created or would become available to youths if a subminimum wage were set at 75 percent of the current minimum wage (Hamermesh). These estimates, however were not unanimously accepted; questions were raised as to the reliability of supporting data (Osterman, Miller).

Any jobs created by a subminimum wage for youth would disproportionately go to white teenagers (Hamermesh). A wage differential would also have an adverse impact on every group that has trouble entering the work force, including women and other low-wage adults (Litman). A subminimum wage would drag down wages generally and would therefore have a negative effect on all low-wage earners (Rosow) but, again, those most likely to be displaced are those who already work for the minimum wage -- minority workers, the poor, and women (Osterman). Moreover, pressures on minorities are expected to worsen in the next decade, even without a subminimum wage, because the proportion of minorities in the population is increasing (Rosow). Employers who do not hire minority youth now will not do so with a subsidy, and those who do hire minority youth will not create more jobs, so the subminimum wage would have no real effect on its target group (Brown)

The minimum wage itself has a discriminatory effect, because it forces minority youths to compete with whites and adults on an equal footing (Hamermesh). The proposed subminimum would make discrimination more expensive, forcing discriminatory employers to pay higher

wages to preferred workers who are not more qualified (Bloch). Minimum wage destroys jobs and training opportunities for all young people and for minority youth in particular. It fosters discrimination and drops wages in uncovered areas (Bloch). Despite the characteristics of younger workers that sometimes make them difficult to employ, qualification is really a factor of wage level. If the market were free to find its own level, those youths would become more appealing. While it is not economically advantageous to hire them at the current minimum wage, they would become more attractive at a lower rate (Bloch).

There are insufficient data to predict accurately what the impact of a youth subminimum wage will be on older workers. It is particularly difficult to project how many older workers would be displaced by younger, less expensive employees. While one study has suggested that 50,000 to 100,000 jobs would be taken away from adults (Hamermesh), the Minimum Wage Study Commission found that figure to be severely understated (Rosow). Those who believe that job creation would be very slight, anticipate that adult displacement would account for most of the jobs going to subminimum wage youths (Osterman). Moreover, there is a clear flight of good jobs from urban areas, and that will continue -- leaving a larger pool of low-wage workers in areas that do not offer jobs (Lucy). That geographic joblessness might be alleviated, in part, by the enthusiasm of small urban businesses for low-wage youth workers (Palmer).

If low-cost labor were going to be consistently available, production would shift to more labor-intensive systems (Bloch). However, the economy is moving away from labor-intensive production, and a temporary pool of cheaper workers would not change the general trend (Rosow). In

addition; lower wages would not compensate employers for the problems associated with younger workers -- such as high turnover -- so there would not be jobs created in manufacturing (Osterman). The trend toward self-service is a reflection of the high cost of young workers. Restaurants and gas stations, for instance, have found it more profitable to cut services than to pursue the traditional course of employing youths (Palmer).

We must give some thought to those teenagers who are working at or above the minimum wage: if their cohort is devalued, how will they react to reductions in pay that are designed to open opportunities for others (Rosow)? In addition, subsidized or subminimum wage workers might create a large pool of workers deprived of access to benefits through trade unions (Lucy).

Labor Market Discrimination

Black youths are much better off in such areas as education and training than they were 10 or 15 years ago, compared to white youths, and so are qualified to hold minimum wage jobs. Qualifications are up, but so are unemployment rates. The reason black youths aren't hired can only be discrimination (Osterman). There are two kinds of discrimination: covert discrimination which is the result of irrational prejudice; and overt discrimination which results from such things as inadequate education. The second kind must be dealt with through targeting subsidized work experience and basic skills training (Miller).

We need most to overcome past discrimination, not to create a new class of workers, a new wage floor, and disincentive to work. Discrimination is so institutionalized, however, that it is unlikely that any special program will result in preferential treatment for minority youths (Lucy).

Noneconomic Issues of a Subminimum Wage

One fundamental problem with the entire subminimum wage discussion is that it attempts to treat an ideological issue as a technical issue. Economic analysis is unreliable for the purposes of policy discussion. It serves only to divert us from debating real issues, such as the lack of decent jobs for young people (Miller).

In the long run, it is detrimental to all of us to treat youths differently solely because of their age (Lucy). The employment structure of this country mandates equal pay for equal work and suggesting less pay for the same job raises difficult ethical issues. Isolating youths for wage purposes may be seen as a true exception to the equal-pay-for-equal-work rule, or it may be viewed as a deviation which, if extended to other groups, could undermine the whole minimum wage philosophy (Rosow). Changing this axiom of American employment structure would probably pit young people against adults, a contest which youths always lose (Newman). In a system designed to keep youths economically impotent, it would devalue youths even further to suggest that they are not worthy of even the minimum wage for other workers (Nochimson).

Another unintended consequence of a subminimum wage is possible. If it actually does create jobs, the short-term lure of even a small income would encourage young people to leave school (Osterman). However, this possibility is offset by the fact that more part-time jobs have been created in the recent past, which allow young people to finance continued schooling (Hamermesh).

Franchises and Small Businesses

Any proposed subminimum wage for youth would have the primary effect of subsidizing a few industries, particularly fast foods, according

to the Minimum Wage Study Commission (Rosow). The youth differential would create many more entry-level jobs in the fast food industry because the number of available jobs is based on the available budget rather than on a predetermined limit. This job creation would be beneficial to young job-seekers (Palmer).

However, the low pay scale in fast foods has already resulted in a very high turnover rate (Rosow). That level of turnover is desirable and profitable to the industry, which has structured jobs in order to eliminate the necessity of training and keeping workers (Lucy). This has resulted in jobs which are low-skilled, offer no training opportunities and low wages, and don't really pay off for young people (Osterman). However, we should not undervalue the training advantages of holding any job (Bloch).

Job creation as a result of a subminimum wage would probably be seen most in small businesses, such as mom-and-pop establishments, rather than in large industries (Palmer). But the differential may be too small to interest these businesses (Lucy) which, by and large, have not taken advantage of available subsidies like the Targeted Jobs Tax Credit (Rosow). The proposed subminimum is a more direct, and therefore more appealing, incentive and would be more widely used than any indirect incentives (Palmer). The possible benefits to small establishments may not be worth the cost to the entire economy of instituting a youth subminimum wage (Miller).

Minimum Wage at Home and Abroad

The minimum wage has several important functions: it is, as the popular phrase has it, a "safety net" that protects people from poverty (Rosow) or a "union for poor people" (Osterman). As part of the Fair

Labor Standards Act, the minimum wage had the dual purpose of establishing a floor beneath which no worker would fall, and making it equitable for small businesses to compete against each other (Lucy). Testimony prior to the Act's passage repeatedly noted the need to protect adult workers from low-wage competition from youths (Osterman). One unspoken and discriminatory intent was to provide protection for marginally skilled white men from other adult low-wage earners such as blacks and women (Palmer). The legislation was also designed by industrial interests in the North to inhibit the economic development of the South (Bloch).

In the United Kingdom, the total absence of minimum wage legislation has not reduced youth unemployment (Rosow). However, unemployment of youths relative to adults is far lower than in the United States (Hamermesh). In fact, every industrial nation has a serious youth unemployment problem -- what sets the United States apart is the high concentration of minority youth unemployment (Edelman).

Options for Increasing Youths' Employability

It was suggested that discussion of the subminimum wage has passed the point of productivity and that a pilot program should be tried, at least on a test basis (Palmer). Some panelists, however, posited other mechanisms for addressing the youth employment problem. If there were a national will to do so, the youth unemployment crisis could be resolved, but any solution must focus on nondiscriminatory policies which recognize that preferential treatment of some workers is required to overcome past discrimination (Lucy).

Increasing the employability of youths will necessitate a broad range of programs (Edelman); it is clear, for instance, that three to four million young people need something more than just direct job creation (Litman).

Some of the proposals involved experimenting with wage differentials based on training levels by subsidizing employers rather than taking wages out of the youths' pockets. For example, employers and their young employees could be exempted from such standard deductions as taxes and Social Security payments. The potential losses to the Social Security system could then be reimbursed from general revenues or by eliminating some of the less effective employment programs (Rosow). While working out the actual costs of such a program would be extremely complicated, it could be virtually self-administered and therefore relatively inexpensive (Newman). Exemptions from Social Security contributions for some employees would appeal to service industries and small businesses where the number of jobs is not fixed (Palmer). This compromise proposal could be made acceptable to most of the Seminar participants (Bloch). Among other things, it has the benefit of distributing benefits to both employers and employees (Rosow).

Another plan would institute cash bonus payments to employers of certain teenagers (Palmer). Such a program, however, would have to be targeted carefully to youths' training level to be acceptable (Osterman). Also proposed was a bonus system which would subject minimum-wage youths to all standard payroll deductions but would give them tax-free cash awards at three points during the first six

months of employment. This system could potentially reduce turnover by increasing the youths' tenure in their first jobs. It would be valuable to formulate such alternatives with an eye to providing incentives for the job-seeker as well as the employer (Rosow).